

ISSUER COMMENT

30 October 2020

RATING

General Obligation (or GO Related) ¹

Aaa Stable

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Township of Chatham, NJ

Annual Comment on Chatham Township

Issuer Profile

Chatham Township is located in Morris County in north central New Jersey, approximately 20 miles west of New York City. The county has a population of 494,383 and a high population density of 1,054 people per square mile. The county's median family income is \$135,938 (1st quartile) and the August 2020 unemployment rate was 8.8% (4th quartile) ². The largest industry sectors that drive the local economy are professional/scientific/technical services, health services, and retail trade.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Chatham Township. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Chatham Township changes, we will update our opinion at that time.

Credit Overview

Chatham Township's credit position is outstanding, and its Aaa rating far surpasses the median rating of Aa3 for cities nationwide. Notable credit factors include a robust financial position, a very strong wealth and income profile and a sizable tax base. It also reflects a light debt burden and a somewhat elevated pension liability.

Finances: The township has a robust financial position, which is in line with the assigned rating of Aaa. The cash balance as a percent of operating revenues (41.3%) is on par with the US median, despite decreasing between 2015 and 2019. Additionally, the fund balance as a percent of operating revenues (36.3%) approximates other Moody's-rated cities nationwide. Moody's makes certain adjustments to New Jersey local governments' fund balances to include receivables and reserves that would be eligible to be included in fund balance under GAAP accounting but are excluded as a result of state statutory accounting regulations.

Economy and Tax Base: The economy and tax base of Chatham Township are exceptionally healthy and are in line with its Aaa rating. The median family income is a robust 338% of the US level. Also, the full value per capita (\$352,053) is above the US median, and rose materially between 2015 and 2019. Lastly, the total full value (\$3.7 billion) exceeds the US median.

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward

the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts.

Debt and Pensions: The debt and pension liabilities of the township are manageable overall, and are relatively in line with its Aaa rating. The net direct debt to full value (0.5%) is below other Moody's-rated cities nationwide, and did not change from 2015 to 2019. However, the Moody's-adjusted net pension liability to operating revenues (2.1x) is unfavorably higher than the US median.

Management and Governance: New Jersey municipalities have an Institutional Framework score ³ of "Aa", which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap which can be overridden with voter approval only. However, the cap of 2% still allows for moderate revenue-raising ability and excludes debt service, pensions, and certain health care costs. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - New Jersey Cities

Despite the ongoing pandemic, New Jersey cities as a whole will remain stable given a reliance on property taxes and highly predictable expenditures (most pandemic expenses are being paid for by the counties). Prior to the pandemic, the state economy had been expanding, albeit lagging the nation, and regions in proximity to New York City were benefitting from the spill-over effect of residential and commercial development. Growth is likely to slow as a result of the pandemic and municipalities with weak economic profiles or a high dependence on state aid are the most vulnerable to credit deterioration.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

Key Indicators ⁴ ⁵ Chatham Township

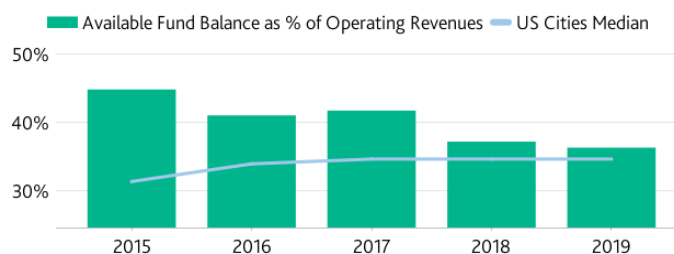
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$3,345M	\$3,465M	\$3,525M	\$3,615M	\$3,653M	\$1,904M	Improved
Full Value Per Capita	\$316,573	\$329,160	\$335,547	\$348,409	\$352,053	\$94,106	Improved
Median Family Income (% of US Median)	315%	304%	330%	338%	338%	111%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	44.8%	41.0%	41.7%	37.2%	36.3%	34.6%	Weakened
Net Cash Balance as % of Operating Revenues	50.5%	46.7%	115.0%	39.6%	41.3%	39.6%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	0.6%	0.6%	0.6%	0.6%	0.5%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.55x	1.45x	1.68x	1.36x	1.32x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.7%	0.7%	0.8%	0.8%	0.8%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.79x	1.75x	2.08x	1.94x	2.06x	1.56x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	10,569	10,528	10,507	10,378	10,378	N/A
Available Fund Balance (\$000s)	\$5,878	\$5,742	\$5,489	\$5,611	\$5,185	\$8,028
Net Cash Balance (\$000s)	\$6,622	\$6,537	\$15,121	\$5,978	\$5,901	\$9,530
Operating Revenues (\$000s)	\$13,108	\$13,996	\$13,152	\$15,098	\$14,290	\$23,172
Net Direct Debt (\$000s)	\$20,351	\$20,249	\$22,036	\$20,518	\$18,893	\$19,139
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$23,525	\$24,430	\$27,401	\$29,276	\$29,460	\$35,448

Source: Moody's Investors Service

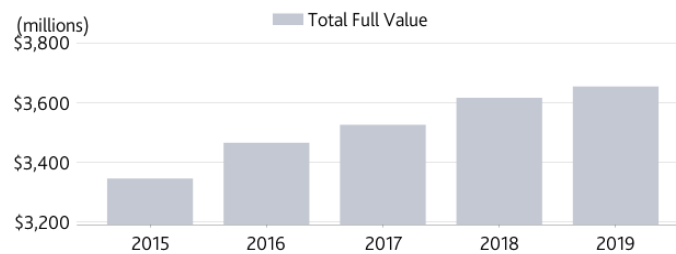
EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2015 to 2019



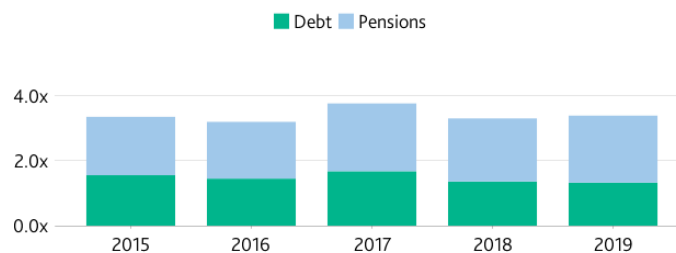
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2015 to 2019

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

The debt burden decreased slightly from 2015 to 2019, while the Moody's-adjusted net pension liability to operating revenues increased slightly

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(September 2019\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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